BANCORPSOUTH INC
Form 10-K
February 28, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 1-12991

BANCORPSOUTH, INC.

(Exact name of registrant as specified in its charter)

Mississippi	64-0659571
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Mississippi Plaza 201 South Spring Street Tupelo, Mississippi	38804
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (662) 680-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $2.50 par value	New York Stock Exchange
Common stock purchase rights	New York Stock Exchange
Guarantee of 8.15% Preferred Securities of BancorpSouth Capital Trust I	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common stock, $2.50 par value
Common stock purchase rights
Guarantee of 8.15% Preferred Securities of BancorpSouth Capital Trust I

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant on June 30, 2007 was approximately $1,910,000,000, based on the last reported sale price per share of the registrant s common stock as reported on the New York Stock Exchange on June 30, 2007.

As of February 21, 2008, the registrant had outstanding 82,374,748 shares of common stock, par value $2.50 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement used in connection with the registrant s 2008 Annual Meeting of Shareholders, to be held April 23, 2008, are incorporated by reference into Part III of this Report.

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PART I

ITEM 1. BUSINESS.

GENERAL

BancorpSouth, Inc. (the Company) is a financial holding company incorporated in 1982. Through its principal bank subsidiary, BancorpSouth Bank (the Bank), the Company conducts commercial banking and financial services operations in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida and Missouri. At December 31, 2007, the Company and its subsidiaries had total assets of approximately $13.2 billion and total deposits of approximately $10.1 billion. The Company s principal office is located at One Mississippi Plaza, 201 South Spring Street, Tupelo, Mississippi 38804 and its telephone number is (662) 680-2000.

The Company s Internet website address is www.bancorpsouth.com. The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports available free of charge on its website on the Investor Relations webpage under the caption SEC Filings as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the SEC). The Company s Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K (this Report).

DESCRIPTION OF BUSINESS

The Bank has its principal office in Tupelo, Lee County, Mississippi, and conducts a general commercial banking, trust and insurance business through 295 offices in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida and Missouri. The Bank has grown through the acquisition of other banks and insurance agencies and through the opening of new branches and offices.

The Bank and its subsidiaries provide a range of financial services to individuals and small-to-medium size businesses. The Bank operates investment services, credit insurance and insurance agency subsidiaries which engage in investment brokerage services and sales of other insurance products. The Bank s trust department offers a variety of services including personal trust and estate services, certain employee benefit accounts and plans, including individual retirement accounts, and limited corporate trust functions. All of the Company s assets are located in the United States and all of its revenues generated from external customers originate within the United States.

The Company has registered the trademarks BancorpSouth, both typed form and design, and Bank of Mississippi, both typed form and design, with the U.S. Patent and Trademark Office. The trademark BancorpSouth will expire in 2011, and Bank of Mississippi will expire in 2010, unless the Company extends these trademarks for additional 10 year periods. Registrations of trademarks with the U.S. Patent and Trademark Office generally may be renewed and continue indefinitely, provided that the Company continues to use these trademarks and files appropriate maintenance and renewal documentation with the U.S. Patent and Trademark Office at times required by the federal trademark laws and regulations.

At December 31, 2007, the Company and its subsidiaries had approximately 4,400 full-time equivalent employees. The Company and its subsidiaries are not a party to any collective bargaining agreements and employee relations are considered to be good.

COMPETITION

Vigorous competition exists in all major areas where the Bank is engaged in business. The Bank competes for available loans and depository accounts with state and national commercial banks as well as savings and loan associations, insurance companies, credit unions, money market mutual funds, automobile finance companies and financial services companies. None of these competitors is dominant in the entire area served by the Bank.

The principal areas of competition in the banking industry center on a financial institution s ability and willingness to provide credit on a timely and competitively priced basis, to offer a sufficient range of deposit and investment opportunities at competitive prices and maturities, and to offer personal and other services of sufficient quality and at competitive prices. The Company and its subsidiaries believe they can compete effectively in all these areas.

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REGULATION AND SUPERVISION

The following is a brief summary of the regulatory environment in which the Company and its subsidiaries operate and is not designed to be a complete discussion of all statutes and regulations affecting such operations, including those statutes and regulations specifically mentioned herein. Changes in these applicable laws, and their application by regulatory and law enforcement agencies, cannot necessarily be predicted, but could have a material effect on the business and results of the Company and its subsidiaries.

The Company is a financial holding company regulated as such under the Bank Holding Company Act of 1956 (the Bank Holding Company Act) and is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve). The Company is required to file annual reports with the Federal Reserve and such other information as the Federal Reserve may require. The Federal Reserve may also conduct examinations of the Company. According to Federal Reserve policy, a financial holding company must act as a source of financial strength to its subsidiary banks and to commit resources to support each such subsidiary. This support may be required at times when a financial holding company may not be able to provide such support.

The Bank is incorporated under the laws of the State of Mississippi and is subject to the applicable provisions of Mississippi banking laws and the laws of various states in which it operates, as well as federal law. The Bank is subject to the supervision of the Mississippi Department of Banking and Consumer Finance and to regular examinations by that department. Deposits in the Bank are insured by the Federal Deposit Insurance Corporation (the FDIC) and, therefore, the Bank is subject to the provisions of the Federal Deposit Insurance Act and to examination by the FDIC. FDIC regulations require that management report annually on its responsibility for preparing its institution s financial statements, and establishing and maintaining an internal control structure and procedures for financial reporting and compliance with designated laws and regulations concerning safety and soundness. The Bank is not a member of the Federal Reserve.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) permits, among other things, the acquisition of savings associations by financial holding companies, irrespective of their financial condition, and increased the deposit insurance premiums for banks and savings associations. FIRREA also provides that commonly controlled, federally insured financial institutions must reimburse the FDIC for losses incurred by the FDIC in connection with the default of another commonly controlled financial institution or in connection with the provision of FDIC assistance to such a commonly controlled financial institution in danger of default. Reimbursement liability under FIRREA is superior to any obligations to shareholders of such federally insured institutions (including a financial holding company such as the Company if it were to acquire another federally insured financial institution) arising as a result of their status as shareholders of a reimbursing financial institution.

The Company and the Bank are subject to the provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). This statute provides for increased funding for the FDIC s deposit insurance fund and expands the regulatory powers of federal banking agencies to permit prompt corrective actions to resolve problems of insured depository institutions through the regulation of banks and their affiliates, including financial holding companies. Its provisions are designed to minimize the potential loss to depositors and to FDIC insurance funds if financial institutions default on their obligations to depositors or become in danger of default. Among other things, FDICIA provides a framework for a system of supervisory actions based primarily on the capital levels of financial institutions. FDICIA also provides for a risk-based deposit insurance premium structure. The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to its deposit insurance fund. While most of the Company s deposits are in the Bank Insurance Fund, certain other of the Company s deposits which were acquired from thrifts over the years remain in the Savings Association Insurance Fund.

The Company is required to comply with the risk-based capital guidelines established by the Federal Reserve and with other tests relating to capital adequacy that the Federal Reserve adopts from time to time. See Note 20 to the Company s Consolidated Financial Statements included in this Report for a discussion of the Company s capital amounts and ratios.

The Company is a legal entity that is separate and distinct from its subsidiaries. There are various legal limitations on the extent to which the Bank may extend credit, pay dividends or otherwise supply funds to the Company or its affiliates. In particular, the Bank is subject to certain restrictions imposed by federal law, including without limitation, sections 23A and 23B of the Federal Reserve Act, on any extensions of credit to the Company or, with certain exceptions, other affiliates.

The primary source of funds for dividends paid to the Company s shareholders is dividends paid to the Company by the Bank. Various federal and state laws limit the amount of dividends that the Bank may pay to the

Company without regulatory approval. Under Mississippi law, the Bank must obtain approval of the Commissioner of the Mississippi Department of Banking and Consumer Finance prior to paying any dividend on the Bank s common stock. Under FDICIA, the Bank may not pay any dividends, if after paying the dividend, it would be undercapitalized under applicable capital requirements. The FDIC also has the authority to prohibit the Bank from engaging in business practices that the FDIC considers to be unsafe or unsound, which, depending on the financial condition of the Bank, could include the payment of dividends.

In addition, the Federal Reserve has the authority to prohibit the payment of dividends by a financial holding company if its actions constitute unsafe or unsound practices. In 1985, the Federal Reserve issued a policy statement on the payment of cash dividends by financial holding companies, which outlined the Federal Reserve s view that a financial holding company that is experiencing earnings weaknesses or other financial pressures should not pay cash dividends that exceed its net income, that are inconsistent with its capital position or that could only be funded in ways that weaken its financial health, such as by borrowing or selling assets. The Federal Reserve indicated that, in some instances, it may be appropriate for a financial holding company to eliminate its dividends.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (IBBEA) permits adequately capitalized and managed financial holding companies to acquire control of banks in states other than their home states, subject to federal regulatory approval, without regard to whether such a transaction is prohibited by the laws of any state. IBBEA permits states to continue to require that an acquired bank must have been in existence for a certain minimum time period that may not exceed five years. IBBEA prohibits a financial holding company, following an interstate acquisition, from controlling more than 10% of the nation s total amount of bank deposits or 30% of bank deposits in the relevant state. States retain the ability to adopt legislation to effectively raise or lower the 30% limit. Federal banking regulators may approve merger transactions involving banks located in different states, without regard to laws of any state prohibiting such transactions; provided, however, that mergers may not be approved with respect to banks located in a state that, prior to June 1, 1997, enacted legislation prohibiting mergers by banks located in such state with out-of-state institutions. Federal banking regulators may permit an out-of-state bank to open new branches in another state if such state has enacted legislation permitting interstate branching. Affiliated institutions are authorized to accept deposits for existing accounts, renew time deposits and close and service loans for affiliated institutions without being deemed an impermissible branch of the affiliate.

The Community Reinvestment Act of 1977 (CRA) and its implementing regulations provide an incentive for regulated financial institutions to meet the credit needs of their local community or communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of such financial institutions. The regulations provide that the appropriate regulatory authority will assess reports under CRA in connection with applications for establishment of domestic branches, acquisitions of banks or mergers involving financial holding companies. An unsatisfactory rating under CRA may serve as a basis to deny an application to acquire or establish a new bank, to establish a new branch or to expand banking services. As of December 31, 2007, the Company had a satisfactory rating under CRA.

Under the Gramm-Leach-Bliley Act of 1999 (the GLBA), banks may associate with a company engaged principally in securities activities. The GLBA also permits a bank holding company to elect to become a financial holding company, allowing it to exercise expanded financial powers. Financial holding company powers relate to financial activities that are determined by the Federal Reserve to be financial in nature, incidental to an activity that is financial in nature or complementary to a financial activity (provided that the complementary activity does not pose a safety and soundness risk). The GLBA expressly characterizes certain activities as financial in nature, including lending activities, underwriting and selling insurance, providing financial or investment advice, securities underwriting, dealing and making markets in securities and merchant banking. In order to qualify as a financial holding company, a bank holding company s depository subsidiaries must be both well-capitalized and well-managed and must have at least a satisfactory rating under CRA. The Company elected to become a financial holding company during 2004.

In addition, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, as extended and revised by the PATRIOT Improvement and Reauthorization Act of 2005 (the USA Patriot Act), requires each financial institution (i) to establish an anti-money laundering program;

(ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign financial institutions; and (iii) to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, foreign financial institutions that do not have a physical presence in any country. The USA Patriot Act also requires that financial institutions must follow certain minimum standards to verify the identity of customers, both foreign and domestic, when a customer opens an account. In addition, the USA Patriot Act contains a

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provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

The activities of the Company and its subsidiaries are also subject to regulation under various federal laws and regulations thereunder, including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act and the Currency and Foreign Transactions Reporting Act (Bank Secrecy Act), among others, as well as various state laws.

The GLBA and other federal and state laws, as well as the various guidelines adopted by the Federal Reserve and the FDIC, provide for minimum standards of privacy to protect the confidentiality of the personal information of customers and to regulate the use of such information by financial institutions. The Company and its subsidiaries have adopted a customer information security program to comply with these regulatory requirements.

The Bank s insurance subsidiaries are regulated by the insurance regulatory authorities and applicable laws and regulations of the states in which they operate.

The Bank s investment services subsidiary is regulated as a registered investment adviser and broker-dealer by federal and/or state securities regulations and self-regulatory authorities.

The Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity or debt securities registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). In particular, the Sarbanes-Oxley Act established: (i) requirements for audit committees, including independence, expertise and responsibilities; (ii) responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) civil and criminal penalties for violation of the securities laws.

In addition, there have been a number of legislative and regulatory proposals that would have an impact on the operation of financial holding companies and their bank and non-bank subsidiaries. Management is not able to predict whether or in what form these proposals may be adopted in the future and, if adopted, what their effect will be on the Company and its subsidiaries.

LENDING ACTIVITIES

The Bank s lending activities include both commercial and consumer loans. Loan originations are derived from a number of sources including direct solicitation by the Bank s loan officers, existing depositors and borrowers, builders, attorneys, walk-in customers and, in some instances, other lenders, real estate broker referrals and mortgage loan companies. The Bank has established systematic procedures for approving and monitoring loans that vary depending on the size and nature of the loan, and applies these procedures in a disciplined manner.

Commercial Lending

The Bank offers a variety of commercial loan services including term loans, lines of credit, equipment and receivable financing and agricultural loans. A broad range of short-to-medium term commercial loans, both secured and unsecured, are made available to businesses for working capital (including inventory and receivables), business expansion (including acquisition and development of real estate and improvements), and the purchase of equipment and machinery. At times, the Bank also makes construction loans to real estate developers for the acquisition, development and construction of residential subdivisions.

Commercial loans are granted based on the borrower s ability to generate cash flow to support its debt obligations and other cash related expenses. A borrower s ability to repay commercial loans is substantially dependent on the success of the business itself and on the quality of its management. As a general practice, the Bank takes as collateral a security interest in any available real estate, equipment, inventory, receivables or other personal property, although such loans may also be made infrequently on an unsecured basis. In many instances, the Bank requires personal guarantees of its commercial loans to provide additional credit support.

The Bank has had very little exposure as an agricultural lender. Crop production loans have been either fully supported by the collateral and financial strength of the borrower, or a 90% loan guaranty has been obtained through the Farm Service Agency on such loans.

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Residential Consumer Lending

A portion of the Bank s lending activities consists of the origination of fixed and adjustable rate residential mortgage loans secured by owner-occupied property located in the Bank s primary market areas. Home mortgage lending is unique in that a broad geographic territory may be serviced by originators working from strategically placed offices either within the Bank s traditional banking facilities or from affordable storefront locations in commercial buildings. In addition, the Bank offers construction loans, second mortgage loans and home equity lines of credit.

The Bank finances the construction of individual, owner-occupied houses on the basis of written underwriting and construction loan management guidelines. First mortgage construction loans are made to contractors on both a pre-sold and a speculation basis. Such loans are also made to qualified individual borrowers and are generally supported by a take-out commitment from a permanent lender. The Bank makes residential construction loans to individuals who intend to erect owner-occupied housing on a purchased parcel of real estate. The construction phase of these loans has certain risks, including the viability of the contractor, the contractor s ability to complete the project and changes in interest rates.

In most cases, the Bank sells its mortgage loans with terms of 15 years or more in the secondary market and either retains or releases the right to service those loans. The sale of mortgage loans to the secondary market allows the Bank to manage the interest rate risks related to such lending operations. Generally, after the sale of a loan with servicing retained, the Bank s only involvement is to act as a servicing agent. In certain cases, the Bank may be required to repurchase mortgage loans upon which customers have defaulted that were previously sold in the secondary market if these loans did not meet the underwriting standards of the entity that purchased the loans. These loans would be held by the Bank in its mortgage loan portfolio.

In most cases, the Bank requires fire, extended casualty insurance and, where appropriate, wind and hail insurance and, where required by applicable regulations, flood insurance to be obtained by the borrower. The Bank maintains its own errors and omissions insurance policy to protect against loss in the event of failure of a mortgagor to pay premiums on fire and other hazard insurance policies. Mortgage loans originated by the Bank customarily include a due on sale clause giving the Bank the right to declare a loan immediately due and payable in the event, among other matters, that the borrower sells or otherwise disposes of the real property subject to a mortgage. In general, the Bank enforces due on sale clauses. Borrowers are typically permitted to refinance or repay residential mortgage loans at their option without penalty.

Non-Residential Consumer Lending

Non-residential consumer loans made by the Bank include loans for automobiles, recreation vehicles, boats, personal (secured and unsecured) and deposit account secured loans. In addition, the Bank provides federally insured or guaranteed student loans to students at universities and community colleges in the Bank s market areas. In most cases, the Bank sells its student loans under existing contracts and releases the right to service those loans. Non-residential consumer loans are attractive to the Bank because they typically have a shorter term and carry higher interest rates than those charged on other types of loans. Non-residential consumer loans, however, do pose additional risks of collectability when compared to traditional types of loans granted by commercial banks such as residential mortgage loans.

The Bank also issues credit cards solicited on the basis of applications received through referrals from the Bank s branches and other marketing efforts. The Bank generally has a small portfolio of credit card receivables outstanding. Credit card lines are underwritten using conservative credit criteria, including past credit history and debt-to-income ratios, similar to the credit policies applicable to other personal consumer loans.

The Bank grants consumer loans based on employment and financial information solicited from prospective borrowers as well as credit records collected from various reporting agencies. Financial stability of the borrower and credit history are the primary factors the Bank considers in granting such loans. The availability of collateral is also a factor considered in making such loans. The Bank seeks collateral that can be assigned and has good marketability with an adequate margin of value. The geographic area of the borrower is another consideration, with preference given to borrowers in the Bank s primary market areas.

OTHER FINANCIAL SERVICES

The Bank s insurance service subsidiary serves as an agent in the sale of title insurance, commercial lines of insurance and a full line of property and casualty, life, health and employee benefits products and services and operates in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana and Missouri.

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The Bank s investment services subsidiary provides brokerage, investment advisory and asset management services and operates in certain communities in Mississippi, Tennessee, Alabama, Arkansas, Louisiana, Texas and Missouri.

See Note 21 to the Company s Consolidated Financial Statements included elsewhere in this Report for financial information about each segment of the Company, as defined by U.S. generally accepted accounting principles.

ASSET QUALITY

Management seeks to maintain a high quality of assets through conservative underwriting and sound lending practices. Management intends to follow this policy even though it may result in foregoing the funding of higher yielding loans. While there is no assurance that the Bank will not suffer losses on its loans, management believes that the Bank has adequate underwriting and loan administration policies in place and personnel to manage the associated risks prudently.

In an effort to maintain the quality of the loan portfolio, management seeks to minimize higher risk loans. These loans include loans to provide initial equity and working capital to new businesses with no other capital strength, loans secured by unregistered stock, loans for speculative transactions in stock, land or commodity markets, loans to borrowers or the taking of collateral outside the Bank s primary market areas, loans dependent on secondary liens as primary collateral and non-recourse loans. To the extent risks are identified, additional precautions are taken in order to reduce the Bank s risk of loss. Commercial loans entail certain additional risks because they usually involve large loan balances to single borrowers or a related group of borrowers, resulting in a more concentrated loan portfolio. Further, because payment of these loans is usually dependent upon the successful operation of the commercial enterprise, the risk of loss with respect to these loans may increase in the event of adverse conditions in the economy.

The Board of Directors of the Bank focuses much of its efforts and resources, and that of the Bank s management and lending officials, on loan review and underwriting policies. Loan status and monitoring is handled through the Bank s loan administration department. Weak financial performance is identified and monitored using past due reporting, the internal loan rating system, loan review reports, the various loan committee functions and periodic asset quality rating committee meetings. Senior loan officers have established a review process with the objective of quickly identifying, evaluating and initiating necessary corrective action for substandard loans. The results of loan reviews are reported to the Audit Committee of both the Company s and the Bank s Board of Directors. This process is an integral element of the Bank s loan program. Nonetheless, management maintains a cautious outlook in anticipating the potential effects of uncertain economic conditions (both locally and nationally) and the possibility of more stringent regulatory standards.

RECENT ACQUISITONS

On March 1, 2007, City Bancorp, a bank holding company with approximately $850 million in assets headquartered in Springfield, Missouri, merged with and into the Company. As a result of the merger, City Bancorp s subsidiary, The Signature Bank, became a subsidiary of the Company. Consideration paid to complete this transaction consisted of 3,313,848 shares of the Company s common stock in addition to cash paid to City Bancorp s shareholders in the aggregate amount of approximately $83.4 million. This transaction was accounted for as a purchase. This acquisition was not material to the financial position or results of operations of the Company. Effective July 1, 2007, The Signature Bank merged with and into BancorpSouth Bank.

SELECTED FINANCIAL INFORMATION

Set forth in this section is certain selected financial information relating to the business of the Company and the Bank.

Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations -Results of Operations Net Interest Revenue included herein for information regarding the distribution of assets, liabilities and shareholders equity, and interest rates and interest differential.

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Analysis of Changes in Effective Interest Differential

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations -Results of Operations Net Interest Revenue included herein for information regarding the analysis of changes in effective interest differential.

Investment Portfolio

Held-to-Maturity Securities

The following table shows the amortized cost of the Bank s held-to-maturity securities at December 31, 2007, 2006 and 2005:

	December 31		
	2007	2006	2005
		(In thousands)	
U. S. Treasury securities	$	$ 10,038	$ 5,148
U. S. Government agency securities	1,375,656	1,514,882	1,211,551
Taxable obligations of states and political subdivisions	49,238	5,561	9,029
Tax-exempt obligations of states and political subdivisions	194,021	185,932	166,776
Other securities	7,001	7,007	20,025
Total	$ 1,625,916	$ 1,723,420	$ 1,412,529

The following table shows the maturities and weighted average yields at December 31, 2007 for the investment categories presented above:

	December 31, 2007				
	U.S. Treasury Securities	U.S. Government Agency Securities	Obligations of States and Political Subdivisions	Other Securities	Weighted Average Yield
			(Dollars in thousands)		
Period to Maturity:					
Maturing within one year	$	$ 352,878	$ 61,676	$ 7,001	4.44%
Maturing after one year but within five years		821,372	44,738		4.64%
Maturing after five years but within ten years		201,406	57,747		5.14%
Maturing after ten years			79,098		6.08%
Total	$	$ 1,375,656	$ 243,259	$ 7,001	

The yield on tax-exempt obligations of states and political subdivisions has been adjusted to a taxable equivalent basis using a 35% tax rate.

Available-for-Sale Securities

The following table shows the book value of the Bank s available-for-sale securities at December 31, 2007, 2006 and 2005:

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	December 31 2007	2006 (In thousands)	2005
U. S. Treasury securities	$	$	$
U. S. Government agency securities	856,524	897,118	1,178,326
Taxable obligations of states and political subdivisions	7,732	7,382	7,161
Tax-exempt obligations of states and political subdivisions	78,149	95,602	117,523
Other securities	58,789	41,897	50,872
Total	$ 1,001,194	$ 1,041,999	$ 1,353,882

The following table shows the maturities and weighted average yields at December 31, 2007 for the investment categories presented above:

	U.S. Treasury Securities	U.S. Government Agency Securities	December 31, 2007 Obligations of State and Political Subdivisions (Dollars in thousands)	Other Securities	Weighted Average Yield
Period to Maturity:					
Maturing within one year	$	$ 170,435	$ 12,952	$ 10,051	3.67%
Maturing after one year but within five years		557,736	28,099	3,020	3.87%
Maturing after five years but within ten years		76,420	15,217		5.82%
Maturing after ten years		51,933	29,613	45,718	5.66%
Total	$	$ 856,524	$ 85,881	$ 58,789	

The yield on tax-exempt obligations of states and political subdivisions has been adjusted to a taxable equivalent basis using a 35% tax rate. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Securities and Other Earning Assets included herein for more information regarding the Company s securities portfolio.

Loan and Lease Portfolio

The Bank s loans and leases are widely diversified by borrower and industry. The table below shows the composition of the Bank s loans and leases by collateral type at December 31 for the years indicated. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Loans and Leases included herein for more information regarding the Bank s loan and lease portfolio.

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	December 31				
	2007	2006	2005	2004	2003
	(In thousands)				
Commercial and agricultural	$ 1,236,776	$ 968,915	$ 930,259	$ 765,096	$ 743,286
Consumer and installment loans to individuals	450,882	388,212	388,610	415,615	533,755
Real estate mortgage	7,020,431	6,205,491	5,746,669	5,393,231	4,738,715
Lease financing	285,865	312,313	302,311	262,035	227,918
Other	233,541	42,592	33,363	29,067	23,583
Total gross loans and leases	$ 9,227,495	$ 7,917,523	$ 7,401,212	$ 6,865,044	$ 6,267,257

Maturity Distribution of Loans and Leases

The maturity distribution of the Bank s loan portfolio is one factor in management s evaluation by collateral type of the risk characteristics of the loan and lease portfolio. The following table shows the maturity distribution of the Bank s loans and leases net of unearned income as of December 31, 2007:

	One Year or Less	One to Five Years	After Five Years
	(In thousands)		
Commercial and agricultural	$ 678,082	$ 460,656	$ 98,038
Consumer and installment loans to individuals	246,992	167,794	35,710
Real estate mortgage	3,849,062	2,614,865	556,504
Lease financing	130,728	88,811	18,901
Other	128,042	86,986	18,513
Total loans and leases, net of unearned income	$ 5,032,906	$ 3,419,112	$ 727,666

Sensitivity of Loans and Leases to Changes in Interest Rates

The interest rate sensitivity of the Bank s loan and lease portfolio is important in the management of effective interest differential. The Bank attempts to manage the relationship between the interest rate sensitivity of its assets and liabilities to produce an effective interest differential that is not significantly impacted by the level of interest rates. The following table shows the interest rate sensitivity of the Bank s loans and leases net of unearned income as of December 31, 2007:

	Fixed Rate	Variable Rate
	(In thousands)	
Loan and lease portfolio due after one year	$ 2,402,228	$ 1,744,550

Non-Accrual, Past Due and Restructured Loans and Leases

Non-performing loans and leases consist of both non-accrual loans and leases and loans and leases that have been restructured (primarily in the form of reduced interest rates) because of the borrower s weakened financial condition. The Bank s non-performing loans and leases were as follows at December 31 for the years indicated:

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	December 31				
	2007	2006	2005	2004	2003
	(In thousands)				
Non-accrual loans and leases	$ 9,789	$ 6,603	$ 8,816	$ 12,335	$ 18,139
Loans and leases 90 days or more past due	18,671	15,282	17,744	19,554	30,634
Restructured loans and leases	721	1,571	2,239	2,107	2,659
Total non-performing loans and leases	$ 29,181	$ 23,456	$ 28,799	$ 33,996	$ 51,432

The total amount of interest earned on non-performing loans and leases was approximately $385,000, $114,000, $194,000, $195,000 and $248,000 in 2007, 2006, 2005, 2004 and 2003, respectively. The gross interest income that would have been recorded under the original terms of those loans and leases if they had not been non-performing amounted to $964,000, $475,000, $600,000, $784,000 and $1,334,000 in 2007, 2006, 2005, 2004 and 2003, respectively.

Loans considered impaired under Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosure, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The Bank s recorded investment in loans considered impaired at December 31, 2007, 2006, 2005, 2004 and 2003 was $9,546,000, $9,087,000, $13,505,000, $11,523,000 and $13,979,000, respectively, with a valuation allowance of $4,404,000, $4,511,000, $6,117,000, $5,279,000 and $6,854,000, respectively. The average recorded investment in impaired loans during 2007, 2006, 2005, 2004 and 2003 was $7,976,000, $9,633,000, $12,794,000, $14,579,000 and $15,695,000, respectively.

The Bank s policy provides that loans and leases are generally placed in non-accrual status if, in management s opinion, payment in full of principal or interest is not expected or payment of principal or interest is more than 90 days past due, unless the loan or lease is both well-secured and in the process of collection.

In the normal course of business, management becomes aware of possible credit problems in which borrowers exhibit potential for the inability to comply with the contractual terms of their loans and leases, but which do not currently meet the criteria for disclosure as non-performing loans and leases. Historically, some of these loans and leases are ultimately restructured or placed in non-accrual status. At December 31, 2007, no single loan or lease of material significance was known to be a potential non-performing loan or lease.

At December 31, 2007, the Bank did not have any concentration of loans or leases in excess of 10% of total loans and leases outstanding. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. The Bank conducts business in a geographically concentrated area but does not consider this factor alone in identifying loan concentrations. The ability of the Bank s borrowers to repay loans is somewhat dependent upon the economic conditions prevailing in the Bank s market area.

Summary of Credit Loss Experience

In the normal course of business, the Bank assumes risks in extending credit. The Bank manages these risks through its lending policies, loan review procedures and the diversification of its loan portfolio. Although it is not possible to predict credit losses with certainty, management regularly reviews the characteristics of the loan portfolio to determine its overall risk profile and quality.

Attention is paid to the quality of the loan portfolio through a formal loan review process. The Board of Directors of the Bank has appointed a loan loss reserve valuation committee (the Loan Loss Committee) that is responsible for ensuring that the allowance for credit losses provides coverage of both known and inherent losses. The Loan Loss Committee considers estimates of loss for individually analyzed credits as well as factors such as historical experience, changes in economic and business conditions and concentrations of risk in determining the level of the allowance for credit losses. The Loan Loss Committee meets at least quarterly to determine the amount of adjustments to the allowance for credit losses. The Loan Loss Committee is composed of senior management from the Bank s loan administration, lending and finance departments. In each period, the Loan Loss Committee bases the allowance for credit losses on its loan classification system as well as an analysis of general economic and business trends in the Bank s region and nationally. See Item 7 Management s Discussion and Analysis of

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Financial Condition and Results of Operations Results of Operations Provisions for Credit Losses and Allowance for Credit Losses included herein for more information regarding the provision and the allowance for credit losses.

Any loan or portion thereof which is classified as loss by regulatory examiners or which is determined by management to be uncollectible because of factors such as the borrower s failure to pay interest or principal, the borrower s financial condition, economic conditions in the borrower s industry or the inadequacy of underlying collateral, is charged off.

The table below presents (a) the breakdown of the allowance for credit losses by loan category and (b) the percentage of each category in the Bank s loan portfolio to total loans at December 31 for the years presented. The breakdown of the allowance by loan category is based in part on evaluations of specific loan s past history and on economic conditions within specific industries or geographical areas. Because these conditions are subject to change, the allocation is not necessarily indicative of the breakdown of any losses.

	2007		2006		2005	
	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Commercial & agricultural	$ 15,109	13.40%	$ 11,361	12.24%	$ 12,171	12.57%
Consumer & installment loans to individuals	9,013	4.89	6,665	4.90	10,458	5.25
Real estate mortgage	88,061	76.08	77,279	78.38	75,570	77.64
Lease financing	2,656	3.10	2,896	3.94	3,014	4.08
Other	358	2.53	633	0.54	287	0.46
Total	$ 115,197	100.00%	$ 98,834	100.00%	$ 101,500	100.00%

	2004		2003	
	Allowance for Credit Loss	% of Loans in Each Category to Total Loans	Allowance for Credit Loss	% of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Commercial & agricultural	$ 10,143	11.14%	$ 12,116	11.86%
Consumer & installment loans to individuals	7,659	6.05	10,311	8.52
Real estate mortgage	69,572	78.56	66,161	75.61
Lease financing	2,814	3.82	2,758	3.64
Other	1,485	0.43	766	0.37
Total	$ 91,673	100.00%	$ 92,112	100.00%

The table below sets forth certain information with respect to the Bank s loans (net of unearned income) and the allowance for credit losses for the five years ended December 31, 2007. See Item 7. Management s Discussion and

Analysis of Financial Condition and Results of Operations - Results of Operations Provisions for Credit Losses and Allowance for Credit Losses included herein for more information regarding the Bank s allowance for credit losses.
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	2007	2006	2005	2004	2003
			(Dollars in thousands)		
LOANS					
Average loans for the period	$ 8,784,940	$ 7,579,935	$ 7,026,009	$ 6,387,656	$ 6,276,805
ALLOWANCE FOR CREDIT LOSSES					
Balance, beginning of period	$ 98,834	$ 101,500	$ 91,673	$ 92,112	$ 87,875
Loans charged off:					
Commercial and agricultural	(2,533)	(1,479)	(2,172)	(7,598)	(7,681)
Consumer and installment loans to individuals	(6,393)	(5,305)	(7,651)	(9,413)	(11,895)
Real estate mortgage	(7,792)	(8,790)	(10,187)	(7,119)	(4,686)
Lease financing	(123)	(529)	(423)		(479)
Total loans charged off	(16,841)	(16,103)	(20,433)	(24,130)	(24,741)
Recoveries:					
Commercial and agricultural	913	1,739	1,063	1,230	834
Consumer and installment loans to individuals	1,962	2,401	2,384	2,528	2,140
Real estate mortgage	1,396	658	1,089	808	865
Lease financing	84	62	21	11	9
Total recoveries	4,355	4,860	4,557	4,577	3,848
Net charge-offs	(12,486)	(11,243)	(15,876)	(19,553)	(20,893)
Provision charged to operating expense	22,696	8,577	24,467	17,485	25,130
Acquisitions	6,153		1,236	1,629	
Balance, end of period	$ 115,197	$ 98,834	$ 101,500	$ 91,673	$ 92,112
RATIOS					
Net charge-offs to average loans	0.14%	0.15%	0.23%	0.31%	0.33%

Deposits

Deposits represent the principal source of funds for the Bank. The distribution and market share of deposits by type of deposit and by type of depositor are important considerations in the Bank s assessment of the stability of its fund sources and its access to additional funds. Furthermore, management shifts the mix and maturity of the deposits depending on economic conditions and loan and investment policies in an attempt, within set policies, to minimize cost and maximize effective interest differential. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Deposits included herein for more information regarding deposits made with the Bank.

The following table shows the classification of the Bank s deposits on an average basis for the three years ended December 31, 2007:

	Year Ended December 31					
	2007		2006		2005	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
	(Dollars in thousands)					
Noninterest bearing demand deposits	$ 1,654,149		$ 1,712,934		$ 1,523,793	
Interest bearing demand deposits	3,191,433	2.63%	2,886,030	2.08%	2,849,199	1.37%
Savings deposits	718,080	1.30%	744,106	1.07%	738,555	0.81%
Other time deposits	4,636,436	4.65%	4,211,371	4.09%	3,998,864	3.16%
Total deposits	$ 10,200,098		$ 9,554,441		$ 9,110,411	

The Bank s other time deposits of $100,000 and greater, including certificates of deposits of $100,000 and greater, at December 31, 2007 had maturities as follows:

Maturing in	Amount (In thousands)
Three months or less	$ 735,517
Over three months through six months	450,220
Over six months through 12 months	555,184
Over 12 months	316,803
Total	$ 2,057,724

Return on Equity and Assets

Return on average shareholders equity, return on average assets and the dividend payout ratios based on net income for the three years ended December 31, 2007 were as follows:

	Year Ended December 31		
	2007	2006	2005
Return on average shareholders equity	12.31%	12.52%	12.33%
Return on average assets	1.07	1.06	1.05
Dividend payout ratio	49.11	50.32	51.70

The Company s average shareholders equity as a percentage of average assets was 8.72%, 8.48% and 8.52% for 2007, 2006 and 2005, respectively. In 2007, the Company s return on average shareholders equity (which is calculated by dividing net income by average shareholders equity) and dividend payout ratio (which is calculated by dividing dividends declared per share by net income per share) decreased compared to 2006 and its return on average assets (which is calculated by dividing net income by average total assets) increased compared to 2006. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Overview included herein for more information regarding the Company s net income and the calculation of return on average shareholders equity and return on average assets.

Short-Term Borrowings

The Bank uses borrowed funds as an additional source of funds for growth in earning assets. Short-term borrowings consist of federal funds purchased, flexible repurchase agreements purchased, securities sold under repurchase agreements and short-term Federal Home Loan Bank (FHLB) advances.

The following table sets forth, for the periods indicated, certain information about the Bank s short-term borrowings and the components thereof:

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	2007				
	End of Period		Daily Average		Maximum Outstanding at any Month End
	Balance	Interest Rate	Balance	Interest Rate	
	(Dollars in thousands)				
Federal funds purchased	$ 200	2.8%	$ 39,558	5.3%	$ 185,281
Flexible repurchase agreements purchased			4,149	4.2	8,581
Securities sold under agreement to repurchase	809,698	3.4	737,861	4.4	912,691
Short-term FHLB advances	706,586	2.9	279,125	4.9	706,586
Total	$ 1,516,484		$ 1,060,693		$ 1,813,139

	2006				
	End of Period		Daily Average		Maximum Outstanding at any Month End
	Balance	Interest Rate	Balance	Interest Rate	
Federal funds purchased	$ 2,400	4.8%	$ 19,809	5.3%	$ 51,450
Flexible repurchase agreements purchased	10,957	4.1	38,237	4.0	55,875
Securities sold under agreement to repurchase	659,081	4.5	637,026	4.3	715,011
Short-term FHLB advances	200,000	5.2	111,789	5.3	325,000
Total	$ 872,438		$ 806,861		$ 1,147,336

	2005				
	End of Period		Daily Average		Maximum Outstanding at any Month End
	Balance	Interest Rate	Balance	Interest Rate	
Federal funds purchased	$ 2,300	3.8%	$ 9,953	3.0%	$ 45,000
Flexible repurchase agreements purchased	59,531	4.0	12,877	3.8	59,556
Securities sold under agreement to repurchase	686,308	3.4	481,238	2.6	686,308
Short-term FHLB advances	2,000	3.8	20,874	3.1	62,000
Total	$ 750,139		$ 524,942		$ 852,864

Federal funds purchased generally mature the day following the date of purchase while securities sold under agreement to repurchase generally mature within 30 days from the date of the sale. Short-term FHLB borrowings generally mature within 30 days following the date of purchase. At December 31, 2007, the Bank had established informal federal funds borrowing lines of credit aggregating $635 million.

Long-Term Federal Home Loan Bank Borrowings

The Bank has entered into a blanket floating lien security agreement with the Federal Home Loan Bank (FHLB) of Dallas. Under the terms of this agreement, the Bank is required to maintain sufficient collateral to secure borrowings in an aggregate amount of the lesser of 75% of the book value (unpaid principal balance) of the Bank s eligible mortgage loans pledged as collateral or 35% of the Bank s assets. At December 31, 2007, there were no call features on long-term FHLB borrowings.

At December 31, 2007, the following FHLB fixed long-term advances were repayable as follows:

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Final due date	Interest rate	Amount (In thousands)
2009	3.40% 5.90%	$ 2,627
2010	3.02% 5.86%	3,500
2011	5.28% 6.93%	2,850
2012	4.71%	1,500
Thereafter	4.69% 5.99%	78,500
Total		$ 88,977

ITEM 1A. RISK FACTORS.

Certain statements contained in this Annual Report may not be based on historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, as amended. These forward-looking statements may be identified by reference to a future period(s) or by the use of forward-looking terminology, such as anticipate, believe, estimate, expect, predict, foresee, ma will, would, could or intend, future or conditional verb tenses, and variations or negatives of such terms. These forward-looking statements include, without limitation, those relating to the expiration of the Company s trademarks, the Company s ability to compete effectively, the effect of changes in laws, governmental regulations and legislative proposals affecting financial institutions, examinations of the Company by the Federal Reserve, Company s operating results, growth strategies and growth opportunities, interest earning assets and interest bearing liabilities, unsecured loans, credit card losses, commercial loans, mortgage loans, economic conditions in the Company s market area, internal control over financial reporting, maturities of held-to-maturity securities, valuation of mortgage servicing rights, diversification of revenue stream, the Company s policy regarding asset quality, net interest revenue, net interest margin, interest rate sensitivity, credit quality and credit losses, capital resources, sources of liquidity and liquidity strategies, sources of maturing loans and investment securities, sales of loans held for sale, cash from operating activities, deposits, non-performing assets, the Company s ability to declare and pay dividends, future acquisitions, market risk, significant accounting policies, underwriting and loan administration policies, indirect lending activities, market conditions, stock repurchase program, the impact of Hurricane Katrina, allowance for credit losses, financial condition of the Company s borrowers, off-balance sheet arrangements, pension and other post-retirement benefit amounts, loans in the Bank s consumer finance subsidiary, expansion of products and services offered by the Company s insurance agencies, charge-offs, legal and regulatory limitations and compliance, junior subordinated debt securities and the effect of certain legal claims and pending lawsuits.

We caution you not to place undue reliance on the forward-looking statements contained in this Annual Report in that actual results could differ materially from those indicated in such forward-looking statements due to a variety of factors. These factors include, but are not limited to, the following:

The ability of the Company to increase noninterest revenue and expand noninterest revenue business;

Changes in general business or economic conditions or government fiscal and monetary policies;

Fluctuations in prevailing interest rates and the effectiveness of the Company s interest rate hedging strategies;

The ability of the Company to maintain credit quality;

The ability of the Company to provide and market competitive products and services;

Changes in the Company s operating or expansion strategy;

Geographic concentration of the Company s assets and susceptibility to economic downturns in that area;

The availability of and costs associated with maintaining and/or obtaining adequate and timely sources of liquidity;

Laws and regulations affecting financial institutions in general;

The ability of the Company to operate and integrate new technology;

The ability of the Company to manage its growth and effectively serve an expanding customer and market base;

The ability of the Company to attract, train and retain qualified personnel;

Changes in consumer preferences;

The ability of the Company to repurchase its common stock on favorable terms;

The ability of the Company to collect amounts due under loan agreements and to attract deposits;

Legislation and court decisions related to the amount of damages recoverable in legal proceedings;

Possible adverse rulings, judgments, settlements and other outcomes of pending litigation; and

Other factors generally understood to affect the financial results of financial services companies.

The Company undertakes no obligation to update its forward-looking statements to reflect events or circumstances that occur after the date of this Report.

In addition to the factors listed above that could influence our forward-looking statements, management believes that the risk factors set forth below should be considered in evaluating the Company s business. Other relevant risk factors are outlined below and may be supplemented from time to time in the Company s press releases and filings with the Securities and Exchange Commission.

We realize net interest income primarily from the difference between interest earned on loans and investments and interest paid on deposits and borrowings, and changes in interest rates may adversely affect our profitability and assets.

Changes in prevailing interest rates may hurt our business. We derive our net interest income mainly from the difference or spread between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. In general, the larger the spread, the more we earn. When market rates of interest change, the interest we receive on our assets and the interest we pay on our liabilities will fluctuate. This can cause decreases in our spread and can adversely affect our income.

Interest rates affect how much money we can lend. For example, when interest rates rise, the cost of borrowing increases and loan originations tend to decrease. In addition, changes in interest rates can affect the average life of loans and investment securities. A reduction in interest rates generally results in increased prepayments of loans and mortgage-backed securities, as borrowers refinance their debt in order to reduce their borrowing cost. This causes reinvestment risk, because we generally are not able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Changes in market interest rates could also reduce the value of our financial assets. If we are unsuccessful in managing the effects of changes in interest rates, our financial condition and results of operations could suffer.

Changes in interest rates could have an adverse impact on our results of operations and financial condition.

Our earnings and financial condition are dependent to a large degree upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of the spread between interest earned on loans and investments and interest paid on deposits and borrowings could adversely affect our earnings and financial condition.

Interest rates are highly sensitive to many factors including:

The rate of inflation;

Economic conditions;

Federal monetary policies; and

Stability of domestic and foreign markets.

Changes in market interest rates will also affect the level of prepayments on loans as well as the payments received on mortgage backed securities, requiring the reinvestment at lower rates than the loans or securities were paying.

The Bank originates a significant amount of residential mortgage loans for sale and for our portfolio. The origination of residential mortgage loans is highly dependent on the local real estate market and the level of interest rates. Increasing interest rates tend to reduce the origination of loans for sale and consequently fee income, which we report as gain on sale of loans. Conversely, decreasing interest rates have the effect of causing clients to refinance mortgage loans faster than anticipated. This causes the value of mortgage servicing rights on the loans sold to be lower than originally anticipated. If this happens, the Company may be required to write down the value of our mortgage servicing rights faster than anticipated, which will increase expense and lower earnings.

Monetary policies and economic factors may limit our ability to attract deposits or make loans.

The monetary policies of federal regulatory authorities, particularly the Federal Reserve, and economic conditions in our service area and the United States generally, affect our ability to attract deposits and extend loans. We cannot predict either the nature and timing of any changes in these monetary policies and economic conditions, including the Federal Reserve s interest rate policies, or their impact on our financial performance. The banking business is subject to various material business risks, which may become more acute in periods of economic slowdown or recession. During such periods, foreclosures generally increase and such conditions could also lead to a potential decline in deposits and demand for loans.

Our allowance for credit losses may not be adequate to cover actual credit losses.

We make various assumptions and judgments about the collectibility of our loan and lease portfolio and provide an allowance for potential losses based on a number of factors. If our assumptions or judgments are wrong, our allowance for credit losses may not be sufficient to cover our actual losses, which could have an adverse effect on our operating results, and may also cause us to increase the allowance in the future. Further, our net income could decrease for any period in which we add additional amounts to our allowance for credit losses.

Hurricanes or other adverse weather events could negatively affect local economies where we maintain branch offices or cause disruption or damage to our branch office locations, which could have an adverse effect on our business or results of operations.

We have operations in Mississippi, Alabama, Louisiana, Texas and Florida, which include areas susceptible to hurricanes or tropical storms. Such weather conditions can disrupt our operations, result in damage to our branch office locations or negatively affect the local economies in which we operate. In late August 2005, Hurricane Katrina devastated parts of the Mississippi Gulf Coast, causing substantial damage to residences and businesses in these areas, including 13 of our banking locations. We cannot predict whether or to what extent damage caused by future hurricanes or storms will affect our operations or the economies in our market areas, but such weather conditions could result in a decline in loan originations and an increase in the risk of delinquencies, foreclosures or loan losses. Our business or results of operations may be adversely affected by these and other negative effects of devastating hurricanes or storms.

Our operations are subject to extensive governmental regulation.

BancorpSouth, Inc. is a financial holding company under the Bank Holding Company Act and BancorpSouth Bank is a Mississippi state banking corporation. Both are subject to extensive governmental regulation, legislation and control. These laws and regulations limit the manner in which we operate, including the amount of loans we can originate, interest we can charge on loans and fees we can charge for certain services. We cannot predict whether, or the extent to which, the government and governmental organizations may change any of these laws or controls. We also cannot predict how such changes would adversely affect our business and prospects.

We face risks in connection with completed or potential acquisitions.

Historically, we have grown through the acquisition of other financial institutions as well as the development of de novo offices. If appropriate opportunities present themselves, we intend to pursue additional acquisitions in the future that we believe are strategic. There can be no assurance that we will be able to identify, negotiate or finance future acquisitions successfully or integrate such acquisitions with our current business.

Upon completion of an acquisition, we are faced with the challenges of integrating the operations, services, products, personnel and systems of acquired companies into our business, which may divert management s attention from ongoing business operations. We cannot assure you that we will be successful in effectively integrating any acquisition into the operations of our business. Moreover, there can be no assurance that the anticipated benefits of any acquisition will be realized.

The success of our acquisitions is dependent on the continued employment of key employees. If acquired businesses do not meet projected revenue targets, or if certain key employees were to leave, we could conclude that the value of the businesses has decreased and that the related goodwill has been impaired. If we were to conclude that goodwill has been impaired, it would result in an impairment of goodwill charge to us, which would adversely affect our results of operations.

Issuing additional shares of our common stock to acquire other banks, bank holding companies, financial holding companies and insurance agencies may result in dilution for existing shareholders and may adversely affect the market price of our stock.

In connection with our growth strategy, we have issued, and may issue in the future, shares of our common stock to acquire additional banks, bank holding companies, financial holding companies and insurance agencies.

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Resales of substantial amounts of common stock in the public market and the potential of such sales could adversely affect the prevailing market price of our common stock and impair our ability to raise additional capital through the sale of equity securities. We usually must pay an acquisition premium above the fair market value of acquired assets for the acquisition of banks, bank holding companies, financial holding companies and insurance agencies. Paying this acquisition premium, in addition to the dilutive effect of issuing additional shares, may also adversely affect the prevailing market price of our common stock.

Our ability to declare and pay dividends is limited by law.

We derive our income solely from dividends received from owning the Bank s common stock. Federal and state law limit the Bank s ability to declare and pay dividends. In addition, the Federal Reserve may impose restrictions on our ability to declare and pay dividends on our common stock.

Our growth strategy includes risks that could have an adverse effect on financial performance.

A significant element of our growth strategy is the acquisition of additional banks, bank holding companies, financial holding companies and insurance agencies in order to achieve greater economies of scale. We cannot assure you that the current level of growth opportunities will continue to exist, that we will be able to acquire banks, insurance agencies, bank holding companies and financial holding companies that satisfy our criteria or that any such acquisitions will be on terms favorable to us. Further, our growth strategy requires that we continue to hire qualified personnel, while concurrently expanding our managerial and operational infrastructure. We cannot assure you that we will be able to hire and retain qualified personnel or that we will be able to successfully expand our infrastructure to accommodate future acquisitions or growth. As a result of these factors, we may not realize the expected economic benefits associated with our acquisitions. This could have a material adverse effect on our financial performance.

Diversification in types of financial services may adversely affect our financial performance.

As part of our business strategy, we may further diversify our lines of business into areas that are not traditionally associated with the banking business. As a result, we would need to manage the development of new business lines in which we have not previously participated. Each new business line would require the investment of additional capital and the significant involvement of our senior management to develop and integrate the service subsidiaries with our traditional banking operations. We can offer no assurances that we will be able to develop and integrate new services without adversely affecting our financial performance.

We compete with other financial holding companies, bank holding companies, banks, insurance and financial services companies.

The banking business is extremely competitive in our service areas in Mississippi, Tennessee, Alabama, Arkansas, Texas, Louisiana, Florida and Missouri. We compete, and will continue to compete, with well-established banks, credit unions, insurance agencies and other financial institutions, some of which have significantly greater resources and lending limits. Some of our competitors provide certain services that we do not provide.

Anti-takeover provisions may discourage a change of our control.

Our governing documents and certain agreements to which we are a party contain provisions which make a change-in-control difficult to accomplish, and may discourage a potential acquirer. These include a shareholder rights plan, or poison pill, a classified or staggered Board of Directors, change-in-control agreements with members of management and supermajority voting requirements. These anti-takeover provisions may have an adverse effect on the market for our common stock.

Securities that we issue, including our common stock, are not FDIC insured.

Securities that we issue, including our common stock, are not savings or deposit accounts or other obligations of any bank and are not insured by the FDIC, the Bank Insurance Funds, any other governmental agency or instrumentality or any private insurer and are subject to investment risk, including the possible loss of principal

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

The physical properties of the Company are held by its subsidiaries as follows:

a. BancorpSouth Bank The main office is located at One Mississippi Plaza, 201 South Spring Street in the central business district of Tupelo, Mississippi in a seven-floor, modern, glass, concrete and steel office building owned by the Bank. The Bank occupies approximately 75% of the space, with the remainder leased to various unaffiliated tenants.

   The Bank owns 240 of its 272 branch banking facilities. The remaining 32 branch banking facilities are occupied under leases with unexpired terms ranging from one to 11 years. The Bank also owns other buildings that provide space for computer operations, lease servicing, mortgage lending, warehouse needs and other general purposes.

   The Bank considers all its buildings and leased premises to be in good condition The Bank also owns several parcels of property acquired under foreclosure. Ownership of and rentals on other real property by the Bank are not material.

b. BancorpSouth Insurance Services, Inc. This wholly-owned subsidiary of the Bank owns four of the 14 offices it occupies. It leases ten offices that have unexpired terms varying in duration from one to nine years.

ITEM 3. LEGAL PROCEEDINGS.

The Company and its subsidiaries are engaged in lines of business that are heavily regulated and involve a large volume of financial transactions with numerous customers through offices in eight states. Although the Company and its subsidiaries have developed policies and procedures to minimize the impact of legal noncompliance and other disputes, litigation presents an ongoing risk.

The Company and its subsidiaries are defendants in various lawsuits arising out of the normal course of business, including claims against entities to which the Company is a successor as a result of business combinations. In the opinion of management, the ultimate resolution of such matters should not have a material adverse effect on the Company s consolidated financial position or results of operations. Litigation is, however, inherently uncertain, and the Company cannot make assurances that it will prevail in any of these actions, nor can it estimate with reasonable certainty the amount of damages that it might incur.

The Company reported litigation expense of approximately $2.3 million in 2007 due to legal and other accruals established relative to the Company s proportionate share of projected Visa, Inc. s litigation charges. These reserves pertain to Visa, Inc. s settlement with American Express, as well as other pending Visa, Inc. litigation and was based on information available from Visa, Inc. and other member banks. The Bank, as a member of Visa, Inc. is obligated to share in certain liabilities associated with Visa, Inc. s settled and pending litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of the Company s security holders during the fourth quarter of 2007.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

MARKET FOR COMMON STOCK

The common stock of the Company trades on the New York Stock Exchange under the symbol BXS. The following table sets forth, for the quarters indicated, the range of sale prices of the Company s common stock as reported on the New York Stock Exchange: